Response to Teska Report

On 4 East Main Street

The following corrections should be made to the report:

1. Not following the ordinance but following direction provide by City Staff
2. Condemnation without proper compensation
3. Use an interest rate that is in line with market conditions
4. Use the annual debt service costs versus the monthly debt service cost
5. To determine the loan amount, must run the stress test and utilize the lowest loan amount
6. Correct the narrative summaries based on the above

Ordinance section 10-6-10.A.9 "Commission Action. The Commission shall consider only the property, building, structure, architectural feature or object proposed for demolition, the merit of any proposed replacement construction or improvement shall not be a standard of review for a demolition request."

1 APPROACH AND METHODOLOGY

Teska Associates and The Planera Group approached this assignment, analyzing the 4 East State Street proposed development, by applying our collective community and real estate development knowledge and experience with a variety of redevelopment project types including historic properties. The evaluation of the financial viability of the proposed renovation and the larger subject property, the pro forma analysis for various development scenarios, and the creation of potential redevelopment strategies were informed by our planning and economic development experience. Identifying best practices in development strategies and applicable financial resources were enhanced by interviews with fourteen external historic preservation, real estate development, and financial incentives practitioners.

The framework for our approach and methodology is the Historic Preservation Commission's responsibility and authority to review the proposed demolition of the 4 East State Street property. City of Geneva Municipal Code section 10-6-10: Demolition of Designated Properties details the procedure and criteria for reviewing a requested demolition for historic landmarks and historic district properties. The Historic Preservation Commission convened a public hearing on January 18, 2023, to review the Applicant's request to demolish 4 East State Street using provisions set out in the Ordinance.

The Applicant has followed the procedures identified in Section A. Procedure for Historic Landmarks and Historic Properties. As part of the process, the Applicant provided a "detailed cost estimate for the rehabilitation of the improvement, property, or site, prepared by a design professional or licensed contractor with expertise in the renovation of existing and/or historic properties." The Applicant also provided a one-page pro forma summary of the cost of renovating, financing and operating the historic building.

The criteria in the ordinance for granting a demolition permit are:

> "The commission may grant a demolition request for a historic landmark or a property within a historic district if, upon review of all testimony, the maintenance, use, and/or alteration of the property would cause immediate and substantial hardship for the owners of record because rehabilitation in a manner which preserves the architectural, historic, or structural integrity of the property either: Is infeasible from a technical, mechanical, or structural perspective; or would leave the property with no reasonable economic value because it would require an unreasonable expenditure when accounting for such factors as current market value, permitted uses of the property, and/or the cost of compliance with local, state, and federal codes applicable to the property."

In the first section of 10-6-10, the ordinance states:

> "demolition shall be considered only when all other redevelopment options for a building, structure, object, improvement, or site have been exhausted."

The landmarked building is part of a larger parcel, PIN 12002-353-008. Per the ordinance, this analysis focuses on redevelopment options of both the "building" and the "site." Interviews with developers who have renovated other historic buildings have found that a small historic building such as the existing landmarked building may be economically feasible as part of a larger development.

As the historic building is part of a larger parcel with a single owner, this analysis considers all reasonable uses of both the building and the site, including the fact that the site is already entitled for as-of-right development for a 50-foot high structure with no setbacks or massing limitations.

Notes:

* Included in AltusWorks $1.4 M estimate

** AltusWorks Assessment Report notes no gas service would be needed for the building

*** Assumes reduced City Permit Fees In addition to the $1.5M cash contribution the City is to credit fees

**** AltusWorks includes a higher, 13% construction contingency compared with 5% in Applicant Submittal

Therefore, the total estimate for Construction Costs in the Applicant Submittal was $1,625,591 compared with $1,679,709 using the higher AltusWorks construction estimate that includes these items. We found, however, that the higher cost estimate did not substantially change the total projected construction costs.

b. Land Costs

Land for parking and drive access: the budget model assumes $500,000 in land costs for the historic site,, parking and access to the site. The estimate for land value is based on other properties that were identified by the Applicant that are not subject to landmark restrictions. In addition, the City has offered access to its parking lot on the adjacent block, across Bennett Street, which could serve as parking for the office use proposed for the 4 East State Street building, which would mean that auto access from Bennett Street to the historic building would not be necessary.

Teska admitting that HPC Condemned the building without proper compensation.

Based on interviews with other developers and real estate professionals, it is our view that the value of the property as it stands now with the landmarked restriction has lower market value than a prorated portion of the Full Site. As shown in further sections of this report, the market value for development is primarily attributable to the remainder of the site. Furthermore, the property is shown with a $1 price on a sign on the building and there have been no known offers for the historic building. Based on these factors, the property has minimal land value separate from the full development site. We estimate the value to be $50,000 in the scenarios that follow in Section 3)C, but an appraisal would be needed to determine market value for the land with the landmark status in place.

The sign on the building states $1.00 BUILDING ONLY - NO LAND INCLUDED.

c. Permit fees

Permit Fees are included but could be reduced with permit waivers or reduced fees if the City would consider a request.

d. Loan

The Applicant Submittal details three approaches to determine the bankable value of a loan (See Section 5). Based on reduced equity requirements delineated in Scenarios 1)A and 1)B, we question whether a $200,000 loan with associated fees would benefit the feasibility of renovating the property.

e. Leasing Fees

Leasing fees can be eliminated as a commercial broker is unlikely to be used to secure the tenant, particularly if the assumed lessee is the same as the owner of the property.

Per the ordinance, you are to calculate the cost based on the "market" which includes lease fees.

Box 2 - Operations

a. Rent estimated at $20/SF is typical office rents in the surrounding area.
b. Vacancy Rate of a building with only one tenant space is a more difficult assumption to quantify; however, 10% is an industry standard vacancy rate.

Box 3 - Possible Loan

Decreasing construction-related costs (Box 1) and increasing equity (Box 4) into the project capital stack can reduce the need for project loan.

Box 4 – Required Equity

Expanding the available funding options can attract new sources into the project's capital stack. The City may consider offering TIF assistance, permit waivers, and other local incentives. There are three possible historic preservation resources are Federal Historic Tax Credits, State Historic Tax Credits, and Preservation Easement Donation. Further exploration of possible funding sources is required to determine eligibility and applicability. Our review of the property in other scenarios focuses on TIF and Federal Historic Tax Credits. As a conservative estimate, we only consider the use of Federal Historic Tax Credits, and not State Historic Tax Credits which are competitively awarded.

Fed Tax Credits require the building to be "Landmarked" and it can't be per the IDNR because it does not have "integrity."

Box 5 – Return on Investment (ROI)

There are several ways to determine ROI:

a. The Applicant has calculated the ROI as Net Operating Income / Equity Investment at 0.2%. As will be shown in the next section of this analysis, utilizing approximately $201,000 in TIF increment, or 11% of total development cost of the historic building, plus Federal Historic Tax Credits, would result in a modest return of 1.4% annually. Alternatively, if this project were a part of an as-of-right development of the full site plus the corner site, the annual return would be approximately 10% (See Section 3C, Scenario 1)A)
b. A second method of calculating ROI is to look at the value of a revenue stream over a given period of time plus the residual value of the property compared with the initial equity investment. The ROI of the value of the property in year ten that includes Net Present Value (NPV) of Net Operating Income over the ten-year period plus the residual value of the building in year 10 would be 24.7% return over equity investment.
c. In addition to annual ROI, there may be additional financial advantages to the Applicant through a Preservation Easement, This could provide a tax deduction based on the value of the foregone development potential for the site that would be donated through the Preservation Easement. (See Section 4D)

Does not appear that Teska included the cost to aquire the full site, the corner property, demolision, environmental cleanup of the corner property.

These calculations are not included in the report. They should be provided for review.

D. 4-Story As-of-Right Development with Historic Renovation and without Renovation

Teska and Planera also analyzed alternative scenarios based on the Full Site at 4 East State St. and 12 East State St.

While no proposed plan has been submitted by the property owner for the full property surrounding the existing building, Teska and Planera analyzed an as-of-right 4-story development that would meet zoning requirements. We based this scenario on zoning parameters and a reduced version of the 2019 Charrette Final Recommendation by removing the fifth floor and the two-story wing that would have been located at the historic building site, or 20 of the units.

Key Findings:

- We analyzed the potential of a four-story, as-of-right development could be developed on the Full Site.
- A modified version of the final recommendation of the charrette was reviewed that would include 96 apartments and 8 townhomes (compared with 116 apartments and 8 townhomes)
- There would be no fifth story in this scenario so it would meet the City's height limit of 50 feet. The 2-story wing at the site of the historic building would also be removed
- We looked at two scenarios. Scenario 2)A would be a 4-Story Building with the historic building versus Scenario 2)B which would be the same 4-Story Building but without the historic building
- Scenario 2)A would include $201,000 of TIF funds ~~and $190,000 of Federal Historic Tax Credits.~~
- Scenario 2)B would not include any TIF or historic tax credits as the building would not be saved
- The ROI for both scenarios is very similar. Scenario 2)A would have a ROI of ~~16.4%~~ 1.6% versus a 1.7% ROI ~~of 16.65%~~ for Scenario 2B. This is largely because the difference in cost between the two scenarios of approximately $1.2 million would be very small relative to the approximate $41 million total development cost and that the renovation of the historic building would largely be "break even."

These projects would BOTH require a larger TIF contribution for either scenario to be implemented

Figure 1: 4-Story Modification of Charrette Final Recommendation: Fifth floor apartments and 2-story wing (shown in pink) were removed for this analysis

Table 3: Stand-Alone Scenarios	Scenario 1)A Stand-Alone with TIF and Historic Tax Credits	Scenario 1)B Stand-Alone with TIF Increment Based on Full Site Development
CONSTRUCTION - HISTORIC BUILDING		
Construction Cost	$1,461,849	$1,461,849
Tenant Improvements	$72,900	$72,900
Professional fees	$54,633	$54,633
Site Improvement Costs	$15,000	$15,000
City Permit Fees	$40,000	$40,000
Builders Risk Insurance	$35,327	$35,327
Projected Construction Cost	$1,679,709	$1,679,709
Developer Fee	$169,841	$169,841
Land	$50,000	$50,000
Estimated Total Development Cost	$1,918,250	$1,918,250
2. OPERATIONS		
Historic Building Annual Rent	$24,300	$24,300
Vacancy	$4,041	$4,041
NOI - Historic Building	$20,259	$20,259
3. COMMERCIAL LOAN		
Estimated Loan	$0	$0
Annual Payment	$0	$0
4. REQUIRED EQUITY		
Estimated Total Cost	$1,918,250	$1,918,250
Estimated Contribution from City (TIF)	**$201,689**	~~$1,525,000~~ $1,715,991
Estimated Historic Tax Credit	~~$190,580~~ $0	~~$190,580~~ $0
Net Cost to Owner	$1,525,981	$202,670
Estimated Loan	$0	$0
Equity Needed	**$1,525,981**	**$202,670**
5. RETURN ON INVESTMENT - BASED ON ANNUAL RENT		
NOI	$20,259	$20,259
Annual Debt Service	$0	$0
Net Cash Flow After Debt Service	$20,259	$20,259
ROI	**1.3%**	~~10.6%~~

Can't obtain Historic Tax Credit

To get to a 10% return, the City would need to contribute $1,715,991 as a minimum.

Teska used to low of interest rate in calculations

Table 4: 4-Story As-of-Right Scenarios

	Scenario 2)A 4-Story Building with Historic Renovation		**Scenario 2)B 4-Story Building without Historic Renovation**	
CONSTRUCTION				
Construction Cost - Historic Building[1]	**$1,264,085**		**$0**	
Land – 4 E. State and 12 E. State	$3,251,613		$3,251,613	
Residential Development Costs	$37,791,000		$37,791,000	
Estimated Total Development Cost	$42,433,106		$41,042,613	
2. OPERATIONS				
NOI - Historic Building	**$20,259**		**$0**	
NOI - Residential	$1,968,000		$1,968,000	
3. COMMERCIAL LOAN				
Estimated Loan	$31,530,628		$30,781,960	
Monthly Payment using 6 1/2%, 25 year amortization to low	$212,897	monthly	$207,842	monthly
using 7 1/2%	$233,000		$227,476	monthly
4. REQUIRED EQUITY				
Estimated Total Cost	$42,433,106		$41,042,613	
Estimated Contribution from City (TIF)	**$201,689**		**0**	
Estimated Historic Tax Credit	**$190,580**		**0**	
Net Cost to Owner	$42,040,838		$41,042,613	
Estimated Loan	$31,530,628		$30,781,960	
Equity Needed	$10,510,209		$10,260,653	
5. RETURN ON INVESTMENT				
Annual NOI	$1,988,259		$1,968,000	
Monthly Annual Debt Service	$212,897	$233,000	$207,842	$227,476
Net Cash Flow After Debt Service	$1,775,362		$1,760,158	
ROI – Net Cash Flow / Equity	**16.40%**		**16.65%**	
	ROI will drop		ROI will drop	

[1] Construction costs for the historic property only include renovation expenses as infrastructure costs are included in the Full Site Residential Development Costs.

Error in Teska calculation where Teska used Monthly Rate versus Annual Rate

Table 4: 4-Story As-of-Right Scenarios

	Scenario 2)A 4-Story Building with Historic Renovation	Scenario 2)B 4-Story Building without Historic Renovation
CONSTRUCTION		
Construction Cost - Historic Building[1]	**$1,264,085**	**$0**
Land – 4 E. State and 12 E. State	$3,251,613	$3,251,613
Residential Development Costs	$37,791,000	$37,791,000
Estimated Total Development Cost	$42,433,106	$41,042,613
2. OPERATIONS		
NOI - Historic Building	**$20,259**	**$0**
NOI - Residential	$1,968,000	$1,968,000
3. COMMERCIAL LOAN		
Estimated Loan	$31,530,628	$30,781,960
Monthly Payment needs to be multiplied by 12	$212,897 $2,554,764	$207,842 $2,494,104
4. REQUIRED EQUITY		
Estimated Total Cost	$42,433,106	$41,042,613
Estimated Contribution from City (TIF)	**$201,689**	**0**
Estimated Historic Tax Credit	**$190,580**	**0**
Net Cost to Owner	$42,040,838	$41,042,613
Estimated Loan	$31,530,628	$30,781,960
Equity Needed	$10,510,209	$10,260,653
5. RETURN ON INVESTMENT		
Annual NOI	$1,988,259	$1,968,000
Annual Debt Service	$212,897 $2,554,764	$207,842 $2,494,104
Net Cash Flow After Debt Service	$1,775,362 ($566,505)	$1,760,158 ($526,104)
ROI – Net Cash Flow / Equity	~~16.40%~~	~~16.65%~~

Negative returns

[1] Construction costs for the historic property only include renovation expenses as infrastructure costs are included in the Full Site Residential Development Costs.

Loan Stress Test results in a lower loan amount and reduces the ROI

Table 4: 4-Story As-of-Right Scenarios

	Scenario 2)A 4-Story Building with Historic Renovation		Scenario 2)B 4-Story Building without Historic Renovation	
CONSTRUCTION				
Construction Cost - Historic Building[1]	**$1,264,085**		**$0**	
Land – 4 E. State and 12 E. State	$3,251,613		$3,251,613	
Residential Development Costs	$37,791,000		$37,791,000	
Estimated Total Development Cost	$42,433,106		$41,042,613	
2. OPERATIONS				
NOI - Historic Building	**$20,259**		**$0**	
NOI - Residential	$1,968,000		$1,968,000	
3. COMMERCIAL LOAN				
Estimated Loan	$31,530,628	$17,937,000	$30,781,960	$17,754,000
Payment	$212,897		$207,842	
4. REQUIRED EQUITY				
Estimated Total Cost	$42,433,106		$41,042,613	
Estimated Contribution from City (TIF)	**$201,689**		**0**	
Estimated Historic Tax Credit	**$190,580**		**0**	
Net Cost to Owner	$42,040,838		$41,042,613	
Estimated Loan	$31,530,628	$17,937,000	$30,781,960	$17,754,000
Equity Needed	$10,510,209	$24,103,838	$10,260,653	23,288,613
5. RETURN ON INVESTMENT				
Annual NOI	$1,988,259		$1,968,000	
Annual Debt Service	$212,897		$207,842	
Net Cash Flow After Debt Service	$1,775,362		$1,760,158	
ROI – Net Cash Flow / Equity	~~16.40%~~	1.6%	~~16.65%~~	1.7%

Per page 25, "Box 3 Possible Loan" discusses that you need to analyze the various stress tests before determining the loan amounts. From the stress test you must take the lowest loan amount. Teska selected the highest loan amount.

1. LTV 70% 7.5% CAP Rate	$18,557,084	$18,368,000
2. LTC 75% x $42,433,106	$31,824,830	$30,781,960
LTC 65% x $42,433,106	$27,581,519	$26,677,000
3. DSCR 1.25 @ 6.5% interest	$19,631,000	$19,431,000
DSCR ~~1.25 @ 7.5% interest~~	$17,937,000	$17,754,000

[1] Construction costs for the historic property only include renovation expenses as infrastructure costs are included in the Full Site Residential Development Costs.

E. 4-Story Planned Development with Partial Fifth Floor

Key Findings

- The final scenarios we investigated would be for 4-Story building with 8 penthouses on a fifth story at the southern portion of the building so as not to be visible from State Street. This scenario would require a planned development or a height variance as it would be approximately 58 feet in certain areas rather than 50 feet.
- Scenario 3)A would be a 4-story, 96 apartments, 8 townhomes plus 8 penthouses with the renovated historic building compared with Scenario 3)B which would be the same building but without the historic building renovation.
- Neither scenario would include TIF or historic tax credits.
- Scenario 3)A, with the historic building renovation, would earn a ROI of ~~17.70%~~ 1.9% ROI compared with Scenario 3)B which would earn ~~18.85%~~ 2.0 without the historic building renovation.
- Scenario 3)A would not require any public subsidies, but does assume a height variance for a partial 5th Floor that could be designed to be set back and not visible from State St. This scenario would yield just 1% lower ROI for the Full Site redevelopment which would not include renovating the historic building.

Both of these scenarios would require a significant TIF to be implemented

Figure 2:4-Story Planned Development with Partial Fifth Floor Set Back from State St.

Interest Rate used on loan is to low it is not market rate

TABLE 5: 4-STORY BUILDING WITH PARTIAL 5TH STORY

	3)A 4-Story with Penthouses and Historic Building	3)B 4-Story with Penthouses without Historic Building
1. CONSTRUCTION		
Projected Construction Cost - Historic Building2	$1,264,026	$0
Land	$3,251,613	$3,251,613
Residential Development Costs	$40,014,000	$40,014,000
Estimated Total Development Cost	$44,991,541	$43,265,613
2. OPERATIONS		
NOI - Historic Building	$20,259	$0
NOI - Residential	$2,258,400	$2,258,400
3. COMMERCIAL LOAN		
Estimated Loan	$33,743,656	$32,449,210
Monthly Annual Payment used 6.5% that is to low 7.5%	~~$227,839~~ $249,363	~~$219,099~~ $239,797
4. REQUIRED EQUITY		
Estimated Total Cost	$44,991,541	$43,265,613
Estimated Contribution from City (TIF)	$0	$0
Estimated Historic Tax Credit	$0	$0
Net Cost	$44,991,541	$43,265,613
Estimated Loan	$33,743,656	$32,449,210
Equity Needed	$11,247,885	$10,816,403
5. RETURN ON INVESTMENT		
NOI	$2,278,659	$2,258,400
Annual Debt Service	~~$227,839~~ $249,363	~~$219,099~~ $239,797
Net Cash Flow After Debt Service	$2,050,820	$2,039,301
ROI	17.70% ↓	18.85% ↓

ROI will drop

[2] Construction costs for the historic property only include renovation expenses as infrastructure costs are included in the Full Site Residential Development Costs.

Error Teska used monthly rate in calculation and should have used annual rate

TABLE 5: 4-STORY BUILDING WITH PARTIAL 5TH STORY

	3)A 4-Story with Penthouses and Historic Building		3)B 4-Story with Penthouses without Historic Building	
1. CONSTRUCTION				
Projected Construction Cost - Historic Building2	$1,264,026		$0	
Land	$3,251,613		$3,251,613	
Residential Development Costs	$40,014,000		$40,014,000	
Estimated Total Development Cost	$44,991,541		$43,265,613	
2. OPERATIONS				
NOI - Historic Building	$20,259		$0	
NOI - Residential	$2,258,400		$2,258,400	
3. COMMERCIAL LOAN				
Estimated Loan	$33,743,656		$32,449,210	
Monthly Annual Payment	$227,839		$219,099	
Annual payment is	$2,734,068		$2,629,188	
4. REQUIRED EQUITY				
Estimated Total Cost	$44,991,541		$43,265,613	
Estimated Contribution from City (TIF)	$0		$0	
Estimated Historic Tax Credit	$0		$0	
Net Cost	$44,991,541		$43,265,613	
Estimated Loan	$33,743,656		$32,449,210	
Equity Needed	$11,247,885		$10,816,403	
5. RETURN ON INVESTMENT				
NOI	$2,278,659		$2,258,400	
Annual Debt Service	$227,839	$2,734,068	$219,099	$2,629,188
Net Cash Flow After Debt Service	$2,050,820	($ 455,409)	$2,039,301	($ 370,788)
ROI	~~17.70%~~		~~18.85%~~	

Negative returns

2 Construction costs for the historic property only include renovation expenses as infrastructure costs are included in the Full Site Residential Development Costs.

Loan Stress Test results in a lower loan amount and reduces the ROI

TABLE 5: 4-STORY BUILDING WITH PARTIAL 5TH STORY

	3)A 4-Story with Penthouses and Historic Building		3)B 4-Story with Penthouses without Historic Building	
1. CONSTRUCTION				
Projected Construction Cost - Historic Building2	$1,264,026		$0	
Land	$3,251,613		$3,251,613	
Residential Development Costs	$40,014,000		$40,014,000	
Estimated Total Development Cost	$44,991,541		$43,265,613	
2. OPERATIONS				
NOI - Historic Building	$20,259		$0	
NOI - Residential	$2,258,400		$2,258,400	
3. COMMERCIAL LOAN				
Estimated Loan	$33,743,656	$20,556,000	$32,449,210	$20,374,000
Annual Payment	$227,839		$219,099	
4. REQUIRED EQUITY				
Estimated Total Cost	$44,991,541		$43,265,613	
Estimated Contribution from City (TIF)	$0		$0	
Estimated Historic Tax Credit	$0		$0	
Net Cost	$44,991,541		$43,265,613	
Estimated Loan	$33,743,656	$20,556,000	$32,449,210	$20,374,000
Equity Needed	$11,247,885	$24,435,541	$10,816,403	$22,891,613
5. RETURN ON INVESTMENT				
NOI	$2,278,659		$2,258,400	
Annual Debt Service	$227,839		$219,099	
Net Cash Flow After Debt Service	$2,050,820		$2,039,301	
ROI	~~17.70%~~	1.9%	~~18.85%~~	2.0%

Per page 25, "Box 3 Possible Loan" discusses that you need to analyze the various stress tests before determining the loan amounts. From the stress test you must take the lowest loan amount. Teska selected the highest loan amount.

1. LTV 70% 7.5% CAP Rate	$21,267,484	$21,078,400
2. LTC 75% x $42,433,106	$33,743,656	$32,449,210
LTC 65% x $42,433,106	$29,244,502	$28,122,648
3. DSCR 1.25 @ 6.5% interest	$22,498,000	$22,298,000
DSCR 1.25 @ 7.5% interest	$20,556,000	$20,374,000

[2] Construction costs for the historic property only include renovation expenses as infrastructure costs are included in the Full Site Residential Development Costs.

In summary, the following corrections should be made to the report:

1. Not following the ordinance but following direction provide by City Staff
2. Condemnation without proper compensation
3. Use an interest rate that is in line with market conditions
4. Use the annual debt service costs versus the monthly debt service cost
5. To determine the loan amount, must run the stress test and utilize the lowest loan amount
6. Correct the narrative summaries based on the above